Citizens Advice Scotland response
Access to cash call for evidence
September 2018

Citizens Advice Scotland (CAS), our 60 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer helpline, and the Extra Help Unit, form Scotland's largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone.

In 2017-18 the Citizens Advice Service network helped over 295,100 clients and dealt with almost 800,000 advice issues for clients living in Scotland. With support from the network clients had financial gains of almost £142.2 million and our self-help website Advice in Scotland received approximately 3.2 million page views.

Question 1: What do you think could happen to cash demand in the UK over the next fifteen years?

CAS would agree that demand for cash is generally likely to decrease over the next fifteen years; however there will still be a need for cash. In the future the distribution of cash across society is likely to be uneven with some people not requiring it at all; however a proportion of the population will continue to use cash because of limited choices and we would expect that this would disproportionately affect CAB clients.

Question 2: What are consumers' needs for cash and digital payments and how can they be best met in the future?

Some of the uses CAB clients have for cash include:

- For budgeting. Using cash rather than a digital payment gives some of our clients control over their spending so that they can avoid cycles of bank charges.
- To top up prepayment meters. Again this can be a budgeting tool, especially if the client is receiving subsistence benefits and they know they can only afford to top up the meter by a fixed amount.
- To pay for goods in convenience stores, especially those that do not accept other methods of payment or make charges for smaller cashless transactions.
- To repay debts or a bankruptcy fee.
- To repay informal loans to family and friends.
- To pay for public transport to get to work.
- To save for events or in informal schemes such as a menage[1].

[1] An informal savings club run between friends or colleagues which offers an alternative to a savings bank or credit union. Each member contributes a weekly amount and they receive the total contributions for one week in order.

- To pay child related expenses e.g. for child care arrangements, pocket money, school meals and expenses.
- To pay maintenance to ex partners in informal arrangements.
- To make donations to faith organisations and charities.

Some of our clients also own small businesses which need access to cash for accepting payment and giving change, especially in tourism, restaurants, pubs and convenience stores.

Clearly all of these payments could be done digitally with some work, however for the changeover to occur there would need to be a universally available and acceptable digital solution which gives consumers confidence and the appropriate level of control they need over their finances. Solutions would not only need to make clients aware of how much money they have, but also payments that are pending. Any solution would need to be presented in an easy to use platform and designed for and by the people that will use it. An example of where this has happened is in Kenya where the M-PESA system was developed as a cheap and easy means to pay anybody else who has a mobile phone using a text message. M-PESA gets around the significant issue of a lack of access to financial services in the country.

Some clients will continue to use cash because of circumstances beyond their control, for example:

- Their employer pays them in cash or they work in the gig or informal economy.
- They are digitally excluded and unable to take advantage of digital payments (see case study 1). In a 2017 survey of 1,100 bureau clients in Scotland[2] one third of respondents had difficulty using a computer (18%) or simply cannot use one at all (16%). Almost a fifth reported never using the internet, while a fifth of those who do use the internet only do so on their phone. Where clients only had access to phones data costs were an issue for 4 in 10 of them, so smartphone ownership wasn't necessarily an indicator of being able to readily switch to an alternative system of payment.[3]
- A previous bad experience of financial services has put them off.
- They are disabled (see case study 2)
- They have been excluded from the banking sector because a fraud marker has been placed on their account (see case study 3)
- They cannot open a bank account as they have no credit history, are not on the voters roll and cannot meet identification requirements. (see case study 4)

For these clients the move away from cash will be dependent on:

- whether employers are forced to use digital payment solutions e.g. to meet HMRC tax and national insurance avoidance requirements,
- the willingness of financial services and other providers to meet the challenge of providing platforms that promote digital and financial inclusion,

[2] Citizens Advice Scotland (2017), *Disconnected*
[3] Citizens Advice Scotland (2017), *Locked out: the Smartphone Deficit*

- whether the clients themselves are able to gain digital access or better digital access,
- banks and financial institutions being more responsive to getting things right, correcting past mistakes and showing a duty of care towards their customers,
- how accessible any alternative payment systems are.

However getting clients back into the banking system after an accusation of fraud is particularly tricky, especially as firms are under no obligation to share information about the alleged fraud. Nor are they obliged to open a bank account for someone who cannot meet minimal money laundering verification requirements.

It also has to be acknowledged that some clients will continue to use cash because they have always done so and they are unwilling or unable to engage with other payment methods. For some of these clients a nudge to change habits may work if they have no other limiting conditions.

Case study 1

An East of Scotland CAB reports a client visited regarding a local bank closure. As a result of this the client had to open a new bank account with another bank as he does not use internet banking and it would be very difficult for him to travel to the next town to use another branch.

Case study 2

A West of Scotland CAB reports a client visited following receiving a letter from the Department for Work and Pensions asking her to open a bank account in order to receive her state pension. The client was unhappy with this as she already had a Post Office account and did not want to move her account. The client stated she was partially sighted and struggled to use a bank machine to access cash.

Case study 3

An East of Scotland CAB reports of a client who had her bank account closed with just seven days' notice in which to make alternative banking arrangements. The client states she had no idea why her bank account had been closed and they have refused to tell her why her account has been closed. She also says that the bank have put a fraud marker against her name so she is unable to open a bank account elsewhere. When contacted the bank stated they are not obliged to tell individuals why they have closed an account. The client reported that all her wages and benefits are paid into this account and she is currently unable to pay her direct debits, including for rent and car insurance payments.

Case study 4

A North of Scotland CAB reports a client visited who was struggling to provide ID to open a bank account in which to have her Universal Credit paid into. As the tenancy, utilities and council tax are all in her partner's name she is struggling to provide ID. The client reports that she was getting her benefits paid into her partner's bank account but has been told this will not be allowed to continue in the long term.

Question 3: What digital or other innovations are likely to affect those who currently are using cash?

We are not best placed to answer this question as not many of our clients are using new digital apps and technology to manage their money.

However in terms of convincing consumers to switch to digital means of payment rather than cash, innovations in cybercrime and failures in technological improvement could act as a barrier to progress. For example there has been a growth in online bank fraud which at best is an inconvenience while replacement bank cards and digital access are reset; at worst it can cause a loss of funds that customers will not easily bounce back from, which will put them and friends and family off using digital technology. Secondly bank technological failures such as that which occurred at TSB during early summer 2018 will also undermine confidence in digital as an alternative to cash.

Question 4: Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?

As cash use declines there will be risks that cash machines become more costly to supply and maintain, especially in rural or deprived areas. Unless a trusted digital system can be put in place that replaces cash there will need to be some regulation to ensure that the financial services sector meets the needs of cash based clients, as market forces and the drive for profit would militate against keeping these services. We can see that this has already happened in terms of accessing cash through the post office and bank branch network:

> **Case study 4**
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> A North of Scotland CAB reports a client sought advice as she was unable to access her benefits payments due to the local post office closing. This limited her access to banking facilities and the client requested a food parcel.
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> **Case study 5**
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> A North of Scotland CAB reports of an elderly and vulnerable client who came in regarding a local bank closure. The client had used the mobile banking van and was concerned about a lack of privacy. She was using an internet banking app but lacked confidence using computers.

Question 5: How should access to cash be paid for?

CAS would be in favour of either the status quo continuing i.e. a social subsidy with cash access as a "right" paid for by forgone interest and bank charges, or a flat fee for cash access. As was clear from the recent FCA overdraft consultation, vulnerable customers tend to disproportionately pay more interest and charges for authorised and unauthorised overdrafts, so arguably they already do pay for the expense of maintaining an ATM network and access to cash.

Also, it has to be recognised that in other areas consumers already pay more for using cash, e.g. if they do not use direct debit to pay for energy costs. In effect the least well off cross subsidise other consumers by paying a poverty premium for their goods and services[4]. This compounds problems of unfairness, financial inequality and lack of opportunity for some of our citizens. It is therefore incumbent upon the financial services sector and regulators to ensure that access to cash does not exacerbate the poverty premium effect even further, by increasingly charging low income, vulnerable consumers more to access their own money.

[4] https://www.cas.org.uk/publications/paying-more-be-poor